

Message Text

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PAGE 01 STOCKH 03134 280900Z
ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 FRB-03 INR-07 IO-13 NEA-10 NSAE-00 USIA-06
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 PA-01 PRS-01 XMB-02 /103 W
-----111054 281448Z /53

R 271521Z JUL 77
FM AMEMBASSY STOCKHOLM
TO SECSTATE WASHDC 1192
INFO AMEMBASSY ANKARA
AMEMBASSY ATHENS
AMEMBASSY BELGRADE
AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY HELSINKI
AMEMBASSY LISBON
AMEMBASSY LUXEMBOURG
AMEMBASSY MADRID
AMEMBASSY OSLO
AMEMBASSY OTTAWA
AMEMBASSY PARIS
AMEMBASSY REYKJAVIK
AMEMBASSY ROME
AMEMBASSY TOKYO
AMEMBASSY VIENNA

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USEEC

USOECD
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E.O. 11652: N/A
TAGS: EFIN, SW
SUBJECT: DEVALUATION? STILL RELATIVELY UNLIKELY BEFORE FALL

REFS: A) STOCKHOLM 2344, B) STOCKHOLM 2759

1. PRESS CONTINUES TO REPORT "SPECULATION" THAT SWEDISH KRONA WILL BE DEVALUED. AS DOLLAR MOVES DOWN AGAINST THE DMARK, THE KRONA FOLLOWS WILLY-NILLY, ALBEIT AT THE BOTTOM OF THE SNAKE. ONE DOLLAR NOW EQUALS AROUND SK 4.28 VERSUS 4.45 ON JUNE 27. CONTINUED INTERVENTION BY THE RIKSBANK TO PROTECT THE KRONA/DMARK RATE HAS RESULTED IN DRAWING DOWN RIKSBANK OFFICIAL RESERVES BY OVER ONE BILLION KRONA DURING THE TWO-WEEK PERIOD ENDING JULY 22, ACCORDING TO THE LATEST OFFICIAL RELEASE. FACT THAT "MOST" SWEDISH EXPORTS ARE QUOTED IN DOLLARS ADDS TO DISPLEASURE OF EXPORTERS AND INCREASES AMOUNT OF PUBLIC COMMENTARY. ACTUAL SPECULATION IN FOREIGN EXCHANGE MARKETS HAS PROBABLY BEEN CONSIDERABLY DAMPENED BY ABSENCE OF MOST TRADERS DURING TRADITIONAL VACATION MONTH OF JULY. THIS ABSENCE OF KEY PERSONNEL EXTENDS ACROSS THE BOARD, FROM MINISTRY OF FINANCE AND RIKSBANK OFFICIALS TO THE KIND OF OFFICIALS IN MULTINATIONAL CORPORATIONS WHO MIGHT BE MAKING KEY DECISIONS REGARDING PAYMENTS BETWEEN SUBSIDIARIES, ETC.

2. OTHER INDICATIONS OF TROUBLE WHICH MUST BE FACTORED INTO SWEDISH DECISION MAKING PROCESS INCLUDE RECENT REPORTS THAT DESPITE APRIL 1 DEVALUATION AND INCREASE IN VALUE ADDED TAX EFFECTIVE JUNE 1, CONSUMPTION HAS NOT BEEN AFFECTED MUCH. IN FACT, IN-

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DICATIONS NOW ARE THAT VAT INCOME IN FY 1977/78 WILL UP TO SK THREE BILLION ABOVE GOVERNMENT ESTIMATES IN REVISED BUDGET ESTIMATES RELEASED IN MAY. THIS DOES NOT AUGER WELL FOR SWEDEN'S TRADE BALANCE IN 1977.

3. PRESS SPECULATION WILL NO DOUBT BE HEIGHTENED BY UPCOMING GROUP OF 10 MEETING IN PARIS. NEVERTHELESS, SO FAR AS WE KNOW NONE OF THE KEY GOVERNMENT PEOPLE HAVE BEEN CALLED IN FROM VACATION, NOR ARE WE AWARE OF ANY CABINET LEVEL MEETINGS (WHICH WOULD BE MANDATORY BEFORE A DECISION TO DEVALUE COULD BE REACHED). DESPITE CONTINUED DRAG EFFECT OF SNAKE PULLING KRONA UP VIS-A-VIS THE DOLLAR, WE DO NOT THINK CRITICAL POINT AT WHICH SWEDES WILL THINK DEVALUATION NECESSARY HAS YET BEEN REACHED, AND ARE STICKING BY OUR FORECAST IN REFTELS THAT DEVALUATION IS UNLIKELY BEFORE FALL. SHOULD OUTFLOW OF RESERVES CONTINUE FOR ANOTHER TWO TO THREE WEEKS AT CURRENT RATE, OR SHOULD DOLLAR CONTINUE TO FALL AGAINST THE DMARK, THIS FORECAST WILL HAVE BEEN SUPERCEDED BY EVENTS OUTSIDE SWEDEN AND MUST BE DISCARDED.
PERRY

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